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A Perspective on Foreign Direct Investment (FDI) in Retail Sector in India

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ABSTRACT

The Indian retail industry has experienced high growth over the last decade with a noticeable shift towards organized retailing formats. The industry is moving towards a modern concept of retailing. The size of India's retail market was estimated at US$ 435 billion in 2010. Of this, US$ 414 billion (95 per cent of the market) was traditional retail and US$ 21 billion (5 per cent of the market) was organized retail. India's retail market is expected to grow at 7 percent over the next 10 years, reaching a size of US$ 850 billion by 2020. Traditional retail is expected to grow at 5 per cent and reach a size of US$ 650 billion (76 per cent), while organized retails is expected to grow at 25 per cent and reach a size of US$ 200 billion by 2020. In this paper attempt is made to analyze the impact of FDI on the Indian retail sector. The study is based on the secondary data and information.

KEYWORDS: FDI, Market, Consumption

INTRODUCTION

India Ratings says that the government of India's recent decision to allow the foreign direct investment (FDI) limit in aviation up to 49% is expected to improve the capital structure of airlines with viable business models. The possible equity infusion would not only de-leverage the sector but also provide funds for long-term growth. However, structural challenges may limit the attractiveness for such foreign investors at least in the medium term. In addition to equity infusion, stronger strategic and operational ties with foreign partners with stronger credit profile, may potentially improve the credit profile of domestic airlines. This may have a beneficial impact on the funding cost of this sector known for its high capital intensity. While the long-term growth potential of the Indian market may draw interest from International Airlines, the continuing structural weakness and regulatory risks may increase the perceived risk in such tie-ups. Other key considerations of prospective JV partners would be the lack of majority equity control in addition to specific board constitution.

The US-based global management consulting firm, A T Kearney, in its Global Retail Development Index (GRDI) 2011, has ranked India as the fourth most attractive nation for retail investment, among 30 emerging markets. As India's retail industry is aggressively expanding itself, great demand for real estate is being created. The cumulative retail demand for real estate across India is expected to reach 43 million square feet by 2013. Around 46 per cent of the total estimated demand between 2009 and 2013 will be come from Tier-1 cities. For instance, Pantaloon Retail added 2.26 million square feet (sq. ft.) of retail space during the fiscal 2011 and booked over 9 million sq. ft of retail space to fructify is expansion plans in future.

Some of the key players in the Indian retail market, with a dominant share are:

1. Pantaloon retail Ltd, a Future group Venture: Over 12 mn sq.ft. of retail space spread over 1,000 stores, across 71 cities in India.
2. Shoppers Stop Ltd: Over 1.82 mn sq. ft. of retail space spread over 35 stores, in 15 cities.
3. Spencer's Retail, RPG Enterprises: Retail footage of over 1.1 mn sq. ft. with approx 250 stores, across 66 cities.
4. Lifestyle Retails, Landmark group venture: Has approximately 15 lifestyle stores and 8 Home centres.
5. Other major domestic players in India are Bharati Retail, Tata Trent, Globus, Aditya Birla 'More', and Reliance retail. Some of the major foreign players who have entered who have entered the segment in India are
6. Carrefour which opened its first cash and carry store in India in New Delhi.
7. Germany-based Metro Cash and Carry which opened six wholesale centres in the country.
8. Walmart in a JV with Bharit Retail, owner of Easy Day store plans to invest about US $ 2.5 billion over the next five years to add about 10 million sq. ft. of retail space in the country.
9. British retailer Tesco Plc (TSCO) in 2008 signed an agreement with Trent Ltd. (TRENT), the retail arm of India's Tata Group, to set up cash-and-carry stores.
10. Marks and Spencers have a JV with Reliance retail.

FINANCE AND ASSISTANCE

The Indian retail sector accounts for 22 per cent of the country's gross domestic product (GDP) and contributes to 8 per cent of the total employment. India continues to be among the most attractive investment propositions for global retailers. Cumulative foreign direct investment (FDI) inflows in single-brand retail trading, during April 2000 to June 2011, stood at US$ 69.26 million.

Till now FDI up to 100 per cent was allowed for cash and carry wholesale trading and export trading under the automatic route, and FDI up to 51 per cent was allowed in single-brand products, with prior government approvals. However, the Government recently passed a cabinet note and permitted FDI up to 51 per cent was allowed in single-brand products, with prior government approvals. However, the Government recently passed a cabinet note and permitted FDI up to 51 per cent in multi brand retailing with prior Government approval and 100 per cent in single brand retailing thus further liberalizing the sector. This policy initiative is expected to provide further fillip to the growth of the sector.

REGULATORY NORMS

Multiple laws and regulations are in force at the central, state and local levels for governing the retail sector. Absence of specific legislations controlling distribution trade and the existence of a plethora of laws such as the Essential commodities Act, the Cold Storage Order, the Weights and Measures Act, labor laws, the Shops Establishments Act and so on, leads to market distortion.

Timely and effective implementation of GST will help bring about market integration. Stream lining the barriers for interstate movements and removal of all octroi and sales tax check points is possible if the implementation of GST is done with a national, on-line tax payment system. There should be quick implementation of all the provisions of the APMC Act, in letter and spirit, namely the institutionalization of market intermediaries, contract farming and so on.

CHALLENGES

Some of the key challenges faced by the sector are:

1. Shortage of Skilled Manpower

Front-end/retail assistant profiles in stores form a major proportion of the employment in the retail sector while store operations account for 75-80 per cent of the total manpower employed in the organized retail sector. Unfortunately, there are very few courses specific to the retail sector and graduates/ post graduates from other streams are recruited. Further, retail training opportunities such as niche courses for areas like merchandising, supply chain and so on are limited. The condition is more alarming in the unorganized sector where the manpower is not equipped with even the basic level of retail specific and customer service skills, which adds to their incompetence vis-à-vis the organized

sector. A cohesive effort to develop skills within the sector can have a significant potential impact on productivity and competitiveness, both within the sector and on the wider economy.

2. Lack of Industry Status

Due to the absence of 'industry status', organized retail in India faces difficulties in procurement of organized financing and fiscal incentives. The Government should grant the much needed 'industry status' to the sector so that the sops that come with it help promote both big and small retailers.

3. Policy Induced Barriers

Organized retail in India is managed by both the Ministries of Commerce and Consumer Affairs. While the Ministry of Commerce takes care of the retail policy, the Ministry of Consumer Affairs regulates retailing in terms of licenses and legislations. There is need to govern retail operations through a single apex body. A single agency can take care of retail operations more effectively, especially with regard to addressing the grievances of retailers. The development of the retail sector can take place at a faster pace if a comprehensive legislation in enacted.

4. Real Estate

Lack of sophisticated retail planning is another major challenge the sector faces. Available space is easily interchangeable between commercial and retail use. In most cities, it is difficult to find suitable properties in central locations for retail, primarily due to fragmented private holdings, infrequent auctioning of large government owned vacant lands and litigation disputes between owners.

THE FUTURE ROAD MAP

Organized retail is a new phenomenon in India and despite the downturns, the market is growing exponentially, as economic growth brings more of India's people into the consuming classes and organized retail lures more and more existing shoppers into its open doors. By 2030, it is estimated that 91 million households will be 'middle class', up from 21 million today. Also by 2030, 570 million people are expected to live in cities, nearly twice the population of the United States today.

Consumer markets in emerging market economies like India are growing rapidly owing to robust economic growth. India's modern consumption level is set to double within five years to US$ 1.5 trillion from the present level of US$750 billion. Thus, with tremendous potential and huge population, India is set for high growth in consumer expenditure. With India's large 'young' population and high domestic consumption, the macro trends for the sector look favorable. Online retail business is another format which has high potential for growth in the near future. The online retail segment in India is growing at an annual rate of 35 per cent, which would take its value from Rs 2,000 crore (US$ 429.5 million) in 2011 to Rs 7,000 crore (US$ 1.5 million) by 2015. For instance the Tata Group firm Infiniti Retail operates its consumer durables and electronics chain of stores under the 'Croma' brand, is in the process of tapping net savvy consumers. Similarly, the Future Group, that operates a dedicated portal. 'Futurebazaar.com' for online sales, has revealed that it is targeting at least 10 per cent of the company's total retail sales through the digital medium.

CONCLUSION

It is not unlikely that egregious examples of market manipulation and price-gouging may also occur in the health and other sectors as trans-nationals take advantage of this unthinking and unrestrained hunger for FDI. At best, FDI may be a mixed bag - at worst it could be an impending disaster for ordinary Indian consumers who (based on their salaries and incomes) already pay too much for their electricity supply and phone connections. FDI inflows to India witnessed significant moderation in 2010-11 while other EMEs in Asia and Latin America received large inflows. This had raised concerns in the wake of widening current account deficit in India beyond the perceived sustainable level of 3.0 per cent of GDP during April-December 2010. This also assumes significance as FDI is generally known to be the most stable component of capital flows needed to finance the current account deficit. By 2015, more than 300 million shoppers are likely to patronize organized retail chains. The growing middle class is an important factor contributing to the growth of retail in India.

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